

...new

possibilities...

profile

Calgary-based Winslow Resources Inc. generates new ideas, new areas of interest and finds new possibilities for hydrocarbon exploration in western Canada. The Company spent the past year generating prospects, acquiring land positions and drilling targets based on the creative application of new, non-conventional seismic data processing technology. Winslow has also recognized the rapid expansion and potential of unconventional resource plays such as shale gas, coalbed methane and basin-centered gas plays evolving in western Canada and is pursuing unconventional exploration opportunities that can sustain long term production and growth. Winslow currently has 11,209,649 common shares issued and outstanding, and trades on the TSX Venture Exchange under the symbol "WLR".

possibilities

...NEW POSSIBILITIES... Winslow was created to take advantage of emerging opportunities found in the oil and gas sector in Western Canada. Within North America, unconventional gas plays are becoming significant. Growth of unconventional resources plays, such as coalbed methane, shale gas and basin-centered gas, are becoming significant contributors to domestic gas production in many areas of North America. Western Canada has only recently been recognized as having tremendous potential for unconventional gas reservoirs. The oil and gas industry environment in western Canada is very dynamic, creating a continuous flow of opportunities and possibilities for new companies. This creates a niche for junior oil and gas companies to thrive in. Winslow has evaluated the potential of early entry into emerging unconventional gas plays in western Canada and is hunting for strategic niche opportunities to compliment conventional oil and gas exploration.

president's

2003 was a year of testing technology-driven exploration concepts and projects initiated the previous year. The Company evaluated a significant opportunity in southeast Saskatchewan and drilled a Devonian age reef anomaly derived from a seismic-based direct hydrocarbon indicator technology. The reef was intersected, however, the well encountered drilling and testing problems which did not allow us to fully evaluate the results based on the new technology. The well was subsequently abandoned to maintain cost control. The results were disappointing because it neither fully proved nor disproved the new seismic processing technology we were applying. Additional drill targets and exploration applications have been set aside pending further data evaluation.

A shallow conventional gas well was drilled by Winslow in north-central Alberta in December of 2003. The well encountered gas in one of four potential zones and will be further tested and evaluated during the second quarter of 2004.

Winslow acquired a royalty interest in the Virden field of southwestern Manitoba in 2003. The field has long life reserves and will continue to provide the Company with cash flow for years to come.

The Company continues its strategic growth plan to focus on building a base of production through reduced risk, high impact exploration drilling opportunities and development projects and, in the future, strategic acquisitions. The Company's structure continues to be lean and flexible, with low overhead. Our main objective for 2004 is to expand our growth objectives to include unconventional gas plays such as coalbed methane and shallow gas reservoirs. Success with such projects will generate continuous exploration possibilities and long-term cash flow allowing the Company to build a base of production and reserves that will provide investors with a high rate of return on their investment.

Underlying Opportunities

The future of hydrocarbon production in western Canada is changing. Higher commodity prices have resulted in a surge of exploration activity focused on unconventional type reservoirs such as shale gas, basin-centered tight gas and coalbed methane.

The Company's operations will remain focused on the exploration for and exploitation of hydrocarbons in conventional as well as unconventional reservoirs, with a strategic plan implemented for responding to opportunities with upside and building a profitable base of operations. Winslow's Board, with its extensive petroleum experience, envisions the oil and gas sector as a rewarding and fast-paced vehicle for building shareholder value over the next several years. Winslow still retains interests in a number of mineral properties which are packaged for sale, farm-out or joint ventures in the future as opportunities to divest arise.

Strategies to Success

Winslow will be active in all stages of oil and gas exploration, development and production. Initially, however, Winslow will rely on favorable joint venture partnerships for data acquisition, land purchases and drilling operations. During the early stages the Company will leverage its internal expertise and relationships within the industry against the experience of operators in targeted areas. Winslow and the operating company will jointly develop play concepts, mature prospects and manage drilling and production operations. This strategy has a number of advantages for Winslow including access to high-quality seismic data, drilling, completion and production technology and expertise. The Company has established relationships with experts in such disciplines as engineering, geophysics, geology and land to supplement Winslow's internal technical expertise. Under this framework, Winslow will maintain very low overhead and considerable flexibility, with the option to contract staff as required. For 2004 Winslow will be seeking unconventional as well as conventional drilling opportunities and pursuing the most prospective geologically and economically sound plays. Winslow's operating strategy includes:

- acquiring lands and joint ventures in both traditional and unconventional oil and gas plays;
- Taking reasonable working interests in the range of 25 – 50% dependent on well costs and risk;
- Seeking out experienced industry partners to manage its drilling and operating programs;

message

- Drilling multi-zone targets and medium to shallow horizon plays in order to reduce risk and costs;
- Focusing on Alberta with consideration to other areas if warranted by the potential;
- Operate in areas that have reasonable infrastructure including all-weather roads and proximity to pipelines and processing facilities. The primary focus will be to remain opportunity-driven, flexible and entrepreneurial to respond quickly to attractive business possibilities that provide near-term production and reserve growth; and
- Add additional Directors to the current board of directors and advisors that reflect the experience required to develop an unconventional resource play

Technology Driven

As the oil and gas industry continues to the more advanced stages of development and exploitation of hydrocarbon reservoirs, a competitive advantage remains an important aspect of the business. At Winslow, we are continuing to evaluate advanced technology, particularly leading-edge geological and geophysical data evaluation methods. In addition, we are currently examining new exploration play concepts and unconventional reservoirs that may be in the early stages of assessment, such as coalbed methane. Success often depends on the recognition of new possibilities, quick entry into the play and securing an early competitive advantage. Winslow will continue to use advanced technology and the ability to move quickly on emerging opportunities.

Drilling

In the summer of 2003, Winslow participated in the drilling of one high impact well targeting oil within the Winnipegosis reef carbonates of south-central Saskatchewan. The well was an opportunity to test seismic data interpretations based on specialized seismic processing technology. Conventional seismic methods suggested the presence of a reef. Results based on the new processing technology produced a direct hydrocarbon indicator associated with the reef, suggesting the presence of hydrocarbons. Subsequent to drilling, evaluation of the well data confirmed the

Devonian reef target was intersected along a fault zone and that a low porosity oil bearing reservoir was present. Numerous attempts to production test the zone failed and the well was abandoned. No further follow-up drilling is planned.

In December, Winslow drilled a joint venture well in the Hairy Hills area of central Alberta. Four possible producing zones were identified on well logs. Production testing took place in February of 2004 with only one gas reservoir having proved favorable for production. The well will be further tested and evaluated as a potential gas producer during the second quarter of 2004.

Additional testing was conducted on the Company's Elnora well in an attempt to resolve a water invasion problem within a potential gas producing carbonate reservoir. The reservoir stimulation and test results proved ineffective and the well has been abandoned.

Private Placements

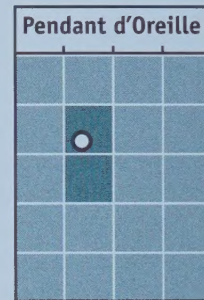
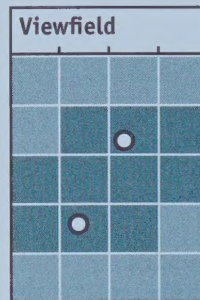
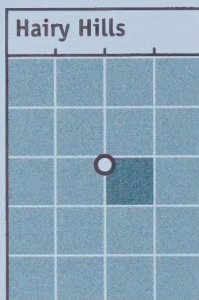
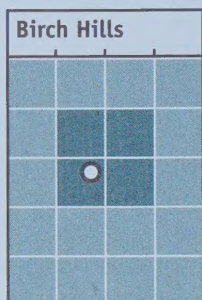
Winslow completed two financings during 2003. The first financing, completed in March, 2003, consisted of 1,512,500 Units at a subscription price of \$0.20 per unit, for gross proceeds of \$302,500 with each Unit consisting of one common share and one share purchase warrant and whereby every whole warrant is exercisable into one additional common share of the Corporation at an exercise price of \$0.25 per share on or before September 30, 2004.

The second financing, completed in July, 2003, consisted of 1,750,000 Flow-Through Common Shares of the Company at a subscription price of \$0.20 per Flow-Through Share, for gross proceeds of \$350,000.

The private placements were used to fund land acquisitions, exploration drilling, development and completion of previous projects and to provide working capital.

Additional financings are under consideration for 2004.

operations



Elnora - Mikwan

All testing was completed on this well in 2003 and it has subsequently been abandoned.

Gadsby

In the Gadsby area of central Alberta, Winslow has a 27.5% working interest in a well that was drilled in late 2001 and cased as a shallow gas producer. The well information has been re-evaluated and is being considered as a re-completion or re-drill candidate in 2004.

Birch Hills

In 2002 Winslow acquired four contiguous sections on its technology-driven oil play concept in the Birch Hills area of north central Alberta. Winslow has a 100% working interest in the properties and anticipates drilling an exploration well with partners during the fourth quarter of 2004. Additional prospects have been identified on the Company's extensive seismic database in the area and will be pursued pending success of the initial drilling program.

Red Willow

In 2003 Winslow conducted an analysis of a 3D seismic survey in the Red Willow area of central Alberta using a specialized seismic processing technology. Drilling results in the area confirm the Company's interpretation results. Winslow has a Devonian age prospect identified and will be pursuing options to drill it in 2004.

SE Saskatchewan

Winslow participated in the drilling of a Devonian-age Winnipegosis reef in the Viewfield area of southeast Saskatchewan. The well was drilled and abandoned. Winslow had a 20% net interest in the project.

Pendant d'Oreille

A shallow well was drilled in the Pendant d'Oreille area of southeastern Alberta in 2001. The Bow Island gas zone was further tested and abandoned. Up-hole potential in the Second White Specks has been evaluated but due to the inability to access local gas gathering infrastructure, Winslow and partners have packaged the property for sale. The Company has earned a 16.6% net interest in the property.

Hairy Hills

A shallow well was drilled in the Hairy Hills area of central Alberta in December of 2003. The Viking gas zone has been tested and flowed gas. Additional testing is being conducted to determine the economic viability of the well during the second quarter of 2004. The Company has earned a 30% net interest in the property.

opportunities

The Opportunities

Progress is being made in reshaping Winslow as a creative and unique junior oil and gas exploration company. The Company has evaluated some high impact oil and gas plays using innovative new technology that with a little success could have opened the door to significant future growth. The Company is continuing to seek and evaluate similar opportunities looking ahead for new, innovative and emerging oil and gas plays of the future.

On behalf of the Board, I would like to thank our staff, who have been integral to revitalizing the Company. I would also like to thank our shareholders for their continued support during a time of change and refocusing. At Winslow, we will continue to leverage our expertise and industry relationships to build a stable base of new exploration ideas and production, while maintaining a lean organization and a low cost structure. The flexibility to respond to opportunity will remain a key component of our strategy, as we move forward with a strong commitment to grow in the oil and gas business and generate high rates of return for our shareholders.



Hugh G. Ross
President
May 10, 2004

md&a

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Financial Statements of the Company. All figures herein have prepared in accordance with Canadian generally accepted accounting principles.

Included in the MD&A are references to financial measures commonly used in the oil and gas industry such as cash flow and cash flow per share. These measures have no standardized meaning, are not defined by Canadian generally accepted accounting principles, and accordingly are referred to as non-GAAP measures. Cash flow and cash flow per share are used by the Company to assess operating results between years and between peer companies. Winslow's reported amounts may not be comparable to similarly titled measures reported by other companies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing, and financing activities or net income as determined by Canadian GAAP as an indicator of the Company's performance or liquidity.

Effective January 1, 2003, the Company has adopted retroactively, with restatement of prior periods, the Canadian Institute of Chartered Accountants' new standard on Asset Retirement

Obligations. As a result, certain comparative figures have been restated in compliance with the new policy. A summary of the effects of this new policy is contained in the "New Accounting Standards for 2003 and 2004" section of this MD&A.

Certain disclosure in this MD&A contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Winslow at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to, risks associated with operations, loss of market, regulatory matters, commodity price risk, environmental risks, industry competition, and ability to access sufficient capital from internal and external sources.

Additional information relating to the Company can be found at www.sedar.com.

The date of this MD&A is May 12, 2004.

Selected Financial Information

The following table summarizes selected annual financial information for the years ended and as at December 31, 2003, 2002 and 2001.

	2003	2002	2001
Production revenue	\$ 10,723	\$ —	\$ —
General and administrative expenses	132,521	130,900	153,704
Funds from (used in) operations	(126,556)	(136,139)	(130,348)
per share — basic	(0.01)	(0.02)	(0.03)
per share — diluted	(0.01)	(0.02)	(0.03)
Net income (loss)	(579,071)	(153,937)	(767,585)
per share — basic	(0.06)	(0.02)	(0.15)
per share — diluted	(0.06)	(0.02)	(0.15)
Working capital	102,698	19,191	74,807
Total assets	1,270,874	1,169,114	1,033,688
Shareholders' equity	1,027,130	1,105,835	932,365

The following table summarizes selected quarterly financial information for 2003 and 2002.

Summary of Quarterly Results

2003	Quarter ended Mar 31	Quarter ended Jun 30	Quarter ended Sep 30	Quarter ended Dec 31
Production revenue	\$ —	\$ —	\$ —	\$ 10,723
General and administrative expenses	31,729	42,068	20,920	37,804
Funds from (used in) operations	(32,713)	(41,586)	(21,207)	(31,050)
per share – basic	—	—	—	—
per share – diluted	—	—	—	—
Net income (loss)	(33,397)	(42,270)	(415,586)	(87,818)
per share – basic	—	—	(0.04)	(0.01)
per share – diluted	—	—	(0.04)	(0.01)
2002	Quarter ended Mar 31	Quarter ended Jun 30	Quarter ended Sep 30	Quarter ended Dec 31
Production revenue	\$ —	\$ —	\$ —	\$ —
General and administrative expenses	25,298	45,812	24,492	35,298
Funds from (used in) operations	(25,298)	(46,111)	(23,775)	(40,955)
per share – basic	—	(0.01)	—	(0.01)
per share – diluted	—	(0.01)	—	(0.01)
Net income (loss)	(26,019)	(46,795)	(38,953)	(42,170)
per share – basic	—	(0.01)	(0.01)	(0.01)
per share – diluted	—	(0.01)	(0.01)	(0.01)

Results of Operations

Winslow acquired its first producing property on September 30, 2003 with a 25% royalty interest in a freehold lease that forms part of the North Virden Scallion Unit #1. The net adjusted cost to Winslow was \$134,780 and was financed primarily through a bank loan of \$125,000, repayable in monthly installments of \$2,500 per month plus interest. For the three months in 2003 that the Winslow owned the asset, the Company earned \$10,723 in revenue on an average of three barrels of oil per day.

Winslow's net loss for 2003 was \$579,071 (\$0.06 per share) compared to a loss of \$153,937 (\$0.04 per share) in 2002. The loss in 2003 included a \$394,967 write-down of oil and gas properties as the Company wrote off the cost of a dry hole near Viewfield, Saskatchewan as well as a previously drilled well near Elnora in central Alberta when testing proved it to be uneconomic. Winslow also wrote off \$47,140 in mining properties in Ontario that it elected not to pursue. In 2002, the Company did not write off any oil and gas properties but did write off \$14,610 in mining properties.

General and administrative costs remained relatively flat over the year, totaling \$132,521 in 2003 which is similar to the \$130,900 recorded in 2002. Increases in consulting fees were offset by decreases in printing and shareholder reports as well as certain administration and office costs. A comparative summary of the Company's general and administrative costs over the past two fiscal years is as follows:

	2003	2002
Salaries and benefits	\$ 50,767	\$ 51,948
Consulting fees	33,276	19,391
Printing and shareholder reports	13,981	20,774
Administration	13,160	18,049
Legal and accounting	11,087	12,178
Filing fees	7,500	8,494
Tax costs on flow-through shares	2,750	66
	\$ 132,521	\$ 130,900

During 2003, Winslow incurred \$309,543 acquiring and exploring its oil and gas assets. This compares to \$269,681 in the prior year. The two largest expenditures in 2003 were the acquisition of the North Virden Scallion Unit #1 royalty interest and the drilling of the well near Viewfield, Saskatchewan. In the fourth quarter of 2003, the Company participated in the drilling of a well in the Hairy Hills area of central Alberta. The well will be tested and evaluated later in the second quarter of this year. As a result of drilling this well, Winslow has earned a 30% interests in the lands.

Liquidity and Capital Resources

Winslow completed two financings in 2003. The first was completed in March and consisted of 1,512,500 units at \$0.20 per unit, for gross proceeds of \$302,500. Each unit consisted of one common share and one half of a share purchase warrant with each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.25 per share on or before September 30, 2004. The second financing was completed in July and consisted of 1,750,000 flow-through shares at a price of \$0.20 per share for gross proceeds of \$350,000. The proceeds from both financings are being used to fund land acquisitions, exploration drilling, development and completion of previous projects and to provide working capital. To December 31, 2003, the Company has spent \$82,817 of the \$350,000 flow-through proceeds and is committed to spend the remaining \$267,183 by December 31, 2004.

As a result of the above issuances, Winslow finished the year with 11,209,649 common shares issued and outstanding. No additional shares have been issued since year-end. Securities currently outstanding that can be converted into common shares include 2,527,500 share purchase warrants at a weighted average exercise price of \$0.27 per share and 1,145,000 incentive stock options at a weighted average exercise price of \$0.22 per share.

New Accounting Standards for 2003 and 2004

During the past year, a number of changes to financial reporting requirements have been introduced. The following outlines the most notable changes and those which have, or may have, the greatest impact on Stratic.

FULL COST ACCOUNTING

Effective for fiscal years beginning on or after January 1, 2004, the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 16 – "Oil and Gas Accounting – Full Cost" which changes the calculation of the ceiling test. The new standard requires that an impairment be recognized if the carrying value of a long-life asset cannot be recovered from its undiscounted future cash flows. An impairment, if required, is then determined as the difference between the carrying value and the fair value of the asset, such fair value to be based on the present value of the expected future discounted cash flows. Winslow performed this ceiling test calculation as at December 31, 2003 and there was no impact on the Company under the new guideline.

ASSET RETIREMENT OBLIGATIONS

The CICA has introduced handbook section 3110 – "Asset Retirement Obligations" which is effective January 1, 2004, although early adoption is encouraged. Under this section, the Company is required to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is first recorded, it is added at fair value to property and equipment. It is then amortized against income as a component of depletion and depreciation expense using the unit-of-production method. The Company elected to adopt this policy effective January 1, 2003, with restatement of prior periods, and a summary of the effects of this new policy is contained in Note 8 of the Financial Statements.

STOCK-BASED COMPENSATION

On October 1, 2003, and with effect from January 1, 2003, the Company prospectively adopted the CICA's new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers and directors. Under the transitional provisions of the standard, stock options granted to employees, officers and directors after the effective date of January 1, 2003 are accounted for using the fair value method. As Winslow did not issue any stock options in 2003, no stock-based compensation expense has been recognized. Winslow will record a stock-based compensation expense if and when future stock options are granted.

Business Risks and Uncertainties

Winslow, like all junior companies in the oil and gas arena, operates in environments subject to inherent risks. Many such uncertainties are beyond the ability of a company to control – particularly those associated with exploring for, and developing, economic quantities of hydrocarbons; volatile commodity prices; issues related to global supply and demand; governmental regulations; and environmental matters. The Company's business is affected by these risks to the same degree as any other participant in the upstream Canadian oil and gas industry. Winslow will attempt to implement risk protection through such means as maintaining a broad base of interests in core areas of the Western Canadian Sedimentary Basin that have long-term production and reserves.

management's responsibility for financial reporting

TO THE SHAREHOLDERS OF WINSLOW RESOURCES INC.

The accompanying financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements. Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner. The financial statements have been examined by external auditors who were appointed by the Company's shareholders and whose report is set forth below. In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as of DECEMBER 31, 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the board of Directors.



Hugh G. Ross
President
May 12, 2004



Ketan Panchmatia
Chief Financial Officer
May 12, 2004

auditors' report

TO THE SHAREHOLDERS OF WINSLOW RESOURCES INC.

We have audited the balance sheet of WINSLOW RESOURCES INC. as at DECEMBER 31, 2003 and 2002 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as of DECEMBER 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Roberts and Company
Chartered Accountants
Calgary, Alberta
May 04, 2004

BALANCE SHEETS

	notes	03	02
AS AT DECEMBER 31, 2003 AND 2002			
	8		(Restated)
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 213,490	\$ 66,334
Accounts receivable		104,205	969
Prepaid expenses		998	1,426
Current portion of loan receivable	5	15,000	5,000
		333,693	73,729
MINING PROPERTY	3	602,669	665,275
PROPERTY AND EQUIPMENT	4	328,712	415,110
LOAN RECEIVABLE	5	—	15,000
INVESTMENTS, at cost (market value \$9,600)		5,800	—
		\$ 1,270,874	\$ 1,169,114
LIABILITIES			
CURRENT			
Accounts payable and accrued		\$ 110,995	\$ 54,538
Callable debt expected to be paid in the next fiscal year	6	30,000	—
		140,995	54,538
Callable debt not expected to be paid in the next fiscal year	6	90,000	—
		230,995	54,538
ASSET RETIREMENT OBLIGATIONS	7, 8	12,749	8,741
		243,744	63,279
COMMITMENT	15		
SHAREHOLDERS' EQUITY			
CAPITAL STOCK	9	7,977,454	7,501,263
CONTRIBUTED SURPLUS		24,175	—
DEFICIT		(6,974,499)	(6,395,428)
		1,027,130	1,105,835
		\$ 1,270,874	\$ 1,169,114

Approved on behalf of the Board


Hugh G. Ross
Director

Hughes P. Salat
Director

STATEMENTS OF LOSS AND DEFICIT

	notes	03	02
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002			
	8		(Restated)
REVENUE			
Production		\$ 10,723	\$
EXPENSES			
General and administrative (schedule)		132,521	130,900
Production expense		4,579	6,465
Interest on callable debt		1,940	—
Amortization and depletion		10,410	3,304
		149,450	140,669
LOSS BEFORE OTHER		138,727	140,669
OTHER			
Interest income		(1,763)	(1,226)
Write down of property and equipment		394,967	—
Write down of mining properties		47,140	14,610
Gain on sale of investments		—	(116)
		440,344	13,268
NET LOSS FOR THE YEAR		579,071	153,937
DEFICIT AT BEGINNING OF YEAR			
As previously stated		6,394,897	6,241,491
Change in policy relating to asset retirement obligations	8	531	—
As restated		6,395,428	6,241,491
DEFICIT AT END OF YEAR		\$ 6,974,499	\$ 6,395,428
BASIC AND DILUTED NET LOSS PER SHARE	9(f)	\$ 0.06	\$ 0.02

STATEMENTS OF CASH FLOWS

notes **03** **02**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	8		(Restated)
OPERATING ACTIVITIES			
Net loss for the year	\$ (579,071)	\$	(153,937)
Adjustments for items not affecting cash			
Amortization and depletion	10,410		3,304
Write down of property and equipment	394,967		-
Write down of mining property	47,140		14,610
Gain on sale of investments	-		(116)
Working capital used by operating activities	(126,554)		(136,139)
Change in non-cash operating working capital	11 (134,773)		(41,304)
	(261,327)		(177,443)
INVESTING ACTIVITIES			
Acquisition and exploration of mining property	(5,334)		(2,835)
Recovery of mining property	20,800		-
Acquisition of property and equipment	(309,543)		(269,681)
Decrease (increase) in loan receivable	5,000		(20,000)
Investments – purchased	(5,800)		-
Investments – proceeds	-		2,719
	(294,877)		(289,797)
FINANCING ACTIVITIES			
Proceeds on callable debt borrowings	125,000		-
Callable debt repayments	(5,000)		-
Net proceeds from common share issue	583,360		365,320
	703,360		365,320
CASH INCREASE (DECREASE) DURING THE YEAR	147,156		(101,920)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	66,334		168,254
CASH AND CASH EQUIVALENTS, END OF YEAR	12 \$ 213,490	\$	66,334

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2003 and 2002

1. COMPANY ACTIVITIES

The Company's primary activity is the exploration for and the development of oil and gas properties in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements involves the use of certain estimates and approximations within reasonable limits of materiality and within the accounting policies summarized below:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of balances with the bank, a broker account and a treasury bill.

MINING PROPERTY

Mineral exploration and mine development costs are capitalized. When production commences these expenditures will be amortized over the life of the estimated ore reserves on the unit of production basis. If a project is abandoned or considered to be of no further interest to the Company, the related expenditures are charged to income. The costs deferred at any time do not necessarily reflect present or future values.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

PROPERTY AND EQUIPMENT

(a) Office equipment

Office equipment is recorded at cost. Amortization is calculated using the straight line method over three, five and ten year terms. In the year of acquisition the amortization is prorated based on the purchase date.

(b) Petroleum and natural gas exploration and development expenditures

The Company follows the Canadian full cost method of accounting whereby all costs related to the exploration for and the development of petroleum and natural gas reserves are initially capitalized and accumulated in cost centres by country. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, completion costs and well equipment. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would significantly alter the related cost centre's rate of depletion and amortization. A significant disposition is defined as causing a change of 20% or more in the annual depletion rate.

Costs capitalized are depleted and amortized using the unit-of-production method by cost centre based upon gross proven petroleum and natural gas reserves as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, whereby one barrel of oil is equivalent to six thousand cubic feet of natural gas.

The cost of significant unproved properties are excluded from the depletion and amortization base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and amortization and asset retirement obligations for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved petroleum and natural gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated asset retirement obligations and financing costs.

JOINT VENTURE ACCOUNTING

Substantially all of the Company's exploration and development costs are conducted jointly with others, and accordingly these financial statements reflect only the Company's proportionate interest.

ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2003, the Company has adopted retroactively, with restatement of prior periods, the Canadian Institute of Chartered Accountants' new standard on Asset Retirement Obligations. This new section requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of oil and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition.

Under the new standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by Company management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related oil and natural gas properties and a corresponding liability is recognized. The increase in oil and natural gas properties is depleted and amortized on the same basis as the remainder of the oil and natural gas

notes to financial statements

properties. The liability is accreted against income until it is settled or the property is sold and is included as a component of depletion and amortization expense. Actual restoration expenditures are charged to the accumulated obligation as incurred.

Prior to 2003, the Company estimated costs of dismantlement, removal and site restoration and recorded them over the remaining life of proved reserves on the unit of production basis. The annual provision was included in depletion and amortization expense and was accrued as site restoration liability on the balance sheet. Actual restoration expenditures were charged to the accumulated obligation as incurred. To December 31, 2002, no provision has been recorded for as no proved reserves or associated commercial production existed.

FLOW-THROUGH SHARES

Capital stock includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company.

The oil and gas exploration and development expenditures and the capital stock are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred. The reduction for 2003 was \$82,994 (2002 – \$37,913).

REVENUE RECOGNITION

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and amortization, asset retirement costs and obligations and the ceiling test are based on estimated proved reserves, production rates, future oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future periods could be significant.

The amounts used to estimate fair values of stock options issued, and the resultant pro-forma income effects (Note 10 (b)) are based on estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements of future periods could be significant.

INCOME TAXES

Income taxes are accounted for using the liability method of tax allocation. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. No future income tax benefit has been recorded in these financial statements as the criteria for recognition has not been satisfied. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the year of realization.

STOCK-BASED COMPENSATION

The Company has a stock option plan as described in Note 10(a).

On October 1, 2003, the Company prospectively adopted the Canadian Institute of Chartered Accountants' new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers, directors and consultants. Under the transitional provisions of the standard, stock options granted after the effective date of January 1, 2003 are accounted for using the fair value method. The Company will continue to disclose the pro-forma results for stock options issued to employees, officers, directors and consultants which were issued in 2002 in Note 10(b).

Effective January 1, 2002, the Company prospectively adopted the Canadian Institute of Chartered Accountants' accounting standard with respect to accounting for stock-based compensation arrangements. Stock options granted to non-employees are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the date of grant. The Company has elected to use the intrinsic value-based method of accounting for its stock option plans, whereby no compensation expense is recorded for stock options issued to directors, officers and employees that have an exercise price equal to or greater than the fair value of the stock at the date options are granted. However, the pro-forma results of using the fair value method, under which compensation expense is recorded based upon the estimated fair value of the options, will be presented only for the effects of options granted subsequent to January 1, 2002.

Any consideration received by the Company on the exercise of stock options will be credited to share capital.

NET LOSS PER SHARE

Diluted net loss per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of "in the money" stock options and warrants are used by the Company to repurchase Company shares at the weighted average market price during the year.

notes to financial statements

3. MINING PROPERTY

The Company has acquired interests in various mining properties as follows:

	Acquisition Costs	Exploration Costs	2003 Total	2002 Total
British Columbia	\$ 283,489	\$ 414,667	\$ 698,156	\$ 692,823
Ontario	—	—	—	117,140
	<u>\$ 283,489</u>	<u>\$ 414,667</u>	698,156	809,963
Less recovery costs from the sale of interests in British Columbia and Ontario			95,487	144,688
			<u>\$ 602,669</u>	<u>\$ 665,275</u>

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion & Amortization	Net 2003	Net 2002
Office equipment	\$ 47,429	\$ 38,735	\$ 8,694	\$ 10,611
Oil and gas – Canada				(Restated – Note 8)
Petroleum and natural gas properties including exploration and development thereon	323,859	6,876	316,983	401,364
Production equipment	3,135	100	3,035	3,135
	<u>\$ 374,423</u>	<u>\$ 45,711</u>	<u>\$ 328,712</u>	<u>\$ 415,110</u>

The petroleum and natural gas properties includes non-producing properties, in the amount of \$107,638. These unproved properties are excluded from the depletion and amortization base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred. At year end the recovery of costs is uncertain and dependent upon achieving commercial production, or sale and, if applicable, additional financing.

5. LOAN RECEIVABLE

The loan receivable is an employee loan that is secured by 100,000 shares of the Company, is non-interest bearing and is due by December 31, 2004.

6. CALLABLE DEBT

Callable debt consists of the following:

	2003	2002
Bank demand loan bearing interest at prime plus 1.25% repayable at \$2,500 per month principal plus interest	\$ 120,000	\$ —
Less callable debt expected to be paid within the next fiscal year	30,000	—
	<u>\$ 90,000</u>	<u>\$ —</u>

The demand loan is secured by:

A general security agreement representing a first charge on all the Company's assets; and

A \$1,000,000 debenture representing a first floating charge on all present and after acquired property of the Company with a fixed charge on a certain petroleum and natural gas property.

The estimated principal repayments on callable debt in each of the next four fiscal years is as follows:

2004	\$ 30,000
2005	30,000
2006	30,000
2007	30,000
	<u>\$ 120,000</u>

notes to financial statements

7. ASSET RETIREMENT OBLIGATIONS

The following table summarizes changes in the asset retirement obligations for the years ended December 31, 2003 and 2002:

	2003	2002
Asset retirement obligations, beginning of year	\$ 8,741	\$ 8,210
Liabilities incurred	3,442	—
Accretion expense	566	531
Asset retirement obligations, end of year	\$ 12,749	\$ 8,741

The undiscounted amount of the estimated future cash flows required to settle the obligations is \$15,412 (2002 – \$10,344). These obligations are expected to be paid over the next several years with a weighted average life of approximately four years. The estimated future cash flows have been discounted at the credit-adjusted risk free rate of 6.66% (2002 – 6.47%).

8. CHANGE IN ACCOUNTING POLICY

The effects of the change in policy for asset retirement obligations for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Increase in property and equipment	\$ 3,442	\$ 8,210
Increase in accumulated amortization and depletion	371	—
Increase in asset retirement obligations	4,008	8,741
Increase in amortization and depletion expense	937	531

The change in policy was applied retroactively and resulted in an increase in the opening deficit balance in the amount of \$531.

9. CAPITAL STOCK

AUTHORIZED

100,000,000 common shares without nominal or par value

Capital stock has been issued as follows:

	2003		2002	
	Number	Stated Value	Number	Stated Value
Balance, beginning of year	7,742,149	\$ 7,501,263	5,742,149	\$ 7,173,856
Private placement (Note 9(a),(b))	1,542,500	302,500	1,162,500	232,500
Flow-through private placement (Note 9(c),(d))	1,925,000	350,000	837,500	167,500
Reduction in respect of income tax deductions renounced to subscribers (Note 9(e))	—	(82,994)	—	(37,913)
Share issue costs	—	(93,315)	—	(34,680)
	11,209,649	\$ 7,977,454	7,742,149	\$ 7,501,263

- (a) On March 31, 2003, the Company issued 1,512,500 units at a price of \$0.20 per unit for total proceeds of \$302,500. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$0.25 per share at any time on or before September 30, 2004. A commission of \$16,125, 30,000 units and 80,625 broker warrants were paid in conjunction with this financing. Each broker warrant entitles the holder to acquire one common share of the Company at a price of \$0.20 per share at any time on or before March 31, 2004.
- (b) On July 10, 2002, the Company issued 1,162,500 units under a private placement, each unit consisting of one common share and one warrant. The Company issued 1,162,500 shares in total at \$0.20 per share, for total proceeds of \$232,500. One warrant entitles the holder to purchase one common share at a price of \$0.24. The warrants expire on July 10, 2004.
- (c) On July 18, 2003, the Company issued 1,750,000 flow-through shares at a price of \$0.20 per share for total proceeds of \$350,000. A commission of 175,000 common shares and 175,000 warrants, exercisable at \$0.20 per share on or before January 18, 2005, was paid in conjunction with this financing.
- (d) On July 10, 2002, the Company issued 837,500 units under a private placement, each unit consisting of one flow through common share and one half of one (0.5) warrant. The Company issued 837,500 shares in total at \$0.20 per share, for total proceeds of \$167,500. One whole warrant entitles the holder to purchase one common share at a price of \$0.24. The warrants expire on July 10, 2004.

- (e) In accordance with the terms of the offerings and pursuant to certain provisions of the Income Tax Act (Canada), the Company renounced, for income tax purposes, exploration and development expenditures incurred during the year in the amount of \$204,317 (2002 – \$93,968).
- (f) The net loss per share has been calculated based on the weighted average number of common shares outstanding during the year of 9,789,286 (2002 – 6,755,848).

10. STOCK OPTIONS AND WARRANTS

(a) Stock option plan

Under the Company's stock option plan, the Company may grant options to its directors, officers, employees and consultants. The maximum number of shares that may be reserved for issuance under the plan is 1,856,000 common shares. The maximum number of shares that may be reserved for issuance to any one person under the plan is 5% of the issued common shares. The plan also provides that the price at which options may be granted can not be less than the market price of the common shares at the time the option is granted. Options granted under the plan will have a term not exceeding five years. The vesting period is one quarter at the time granted and one quarter every six months thereafter for the following 18 months.

A summary of the status of the Company's stock option plan, as of December 31, 2003 and 2002 and changes during the years then ending are as follows:

	2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,145,000	\$ 0.22	665,000	\$ 0.27
Granted	—	—	480,000	0.16
Outstanding, end of year	1,145,000	\$ 0.22	1,145,000	\$ 0.22
Exercisable, end of year	1,025,000	\$ 0.23	733,750	\$ 0.26

The following table summarizes the stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Prices	Weighted Average Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options	Weighted Average Exercise Price
\$0.32	460,000	\$ 0.32	2.40	460,000	\$ 0.32
\$0.16	205,000	0.16	2.90	205,000	0.16
\$0.16	480,000	0.16	3.95	360,000	0.16
	1,145,000			1,025,000	

(b) Pro-forma stock-based compensation expense

Had compensation costs for the Company's stock option plan been determined using the fair value method for options granted from to January 1, 2002 to December 31, 2002, the Company's pro-forma net loss and deficit would be increased by \$29,933 (2002 – \$14,967). There would be no change in net loss per share or diluted loss per share.

The assumptions used to determine the fair value of each option granted on the date of grant using the Black-Scholes option pricing model are as follows:

- Risk free interest rate of 4.21%
- Expected life of options of 5 years
- Expected volatility of 103.93%
- Expected dividend rate of 0%
- Fair value per option granted of \$0.12

(c) The following table summarizes the warrants outstanding at December 31, 2003:

Number of Shares	Exercise Price	Warrant Expiry Date
1,581,250	\$ 0.24	July 10, 2004
80,625	0.20	March 31, 2004
771,250	0.25	September 30, 2004
175,000	0.20	January 18, 2005

notes to financial statements

During the year, 270,625 warrants were paid in conjunction with the financing of the March 31, 2003 and July 18, 2003 private placements. The value of the warrants, \$24,175, was recognized as contributed surplus and the share issuance costs were applied against capital stock. The value of the warrants was based on the Black-Scholes option pricing model with the following weighted average assumptions:

- Risk free interest rate of 3.95%
- Expected life of warrants of 1.4 years
- Expected volatility of 124.77%
- Expected dividend rate of 0%
- Fair value per warrant granted of \$0.08

11. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2003	2002
DECREASE (INCREASE) IN CURRENT ASSETS		
Accounts receivable	\$ (103,236)	\$ 5,446
Prepaid expenses	428	35
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued	(31,965)	(46,785)
	\$ (134,773)	\$ (41,304)

12. CASH FLOW INFORMATION

Cash and cash equivalents consist of balances with the bank, a broker account and a treasury bill maturing on February 12, 2004.

	2003	2002
Cash	\$ 13,966	\$ 25,401
Treasury bill – 2.074%	199,524	40,933
	\$ 213,490	\$ 66,334

13. RELATED PARTY TRANSACTIONS

The Company expensed consulting fees of \$18,000 (2002 – \$18,000), recorded at exchange values, to a company related by way of a common director.

14. INCOME TAXES

(a) Reconciliation of income tax provision

Income tax expense differs from that which would be expected from applying the combined Canadian federal and provincial income tax rates of 41.74% (2002 – 42.24%) to income before income taxes. The difference results from the following:

	2003	2002
Net loss for the year	\$ (579,071)	\$ (153,937)
Expected income tax recovery	\$ (241,704)	\$ (65,023)
Adjustments relating from:		
Amortization, depletion and write down of assets not claimed for tax purposes	188,881	7,567
Gain on investments for accounting purposes	–	(49)
Non-deductible expenses	127	264
Deductible share issuance costs	(8,667)	(2,930)
Loss carry forward	61,363	60,171
	\$ –	\$ –

(b) Loss carried forward

For income tax purposes, the Company has losses carried forward from prior years which can be used to reduce future years' taxable income. These losses expire as follows:

2004	\$ 325,449
2005	242,201
2006	57,846
2007	71,530
2008	140,578
2009	142,449
2010	147,013
	<u>\$ 1,127,066</u>

In addition, the Company will be able to claim capital cost allowances and resource deductions exceeding future amortization and depletion by \$1,812,161.

No future income tax asset regarding these tax losses or deductible temporary differences has been accounted for.

15. COMMITMENT

During the year, the Company issued flow through shares in the amount of \$350,000. Of this amount, the Company had expended \$82,817 and is committed to expending the balance of \$267,183 by December 31, 2004.

16. FINANCIAL INSTRUMENTS

The company's financial instruments consist of cash and short-term deposit, accounts receivable, loan receivable, accounts payable and callable debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest or credit risk arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

CREDIT RISK

Substantially all of the Company's accounts receivables relate to the petroleum and natural gas industry and are subject to the normal industry credit risks.

INTEREST RATE RISK

The Company's exposure to interest rate risk, lies in its callable debt, where interest is calculated at prime plus 1.25% per annum. The prime interest rate is subject to change.

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

	2003	2002
EXPENSES		
Salaries and benefits	\$ 50,767	\$ 51,948
Consulting fees	33,276	19,391
Printing and shareholder reports	13,981	20,774
Administration	13,160	18,049
Legal and accounting	11,087	12,178
Filing fees	7,500	8,494
Tax costs on flow-through shares	2,750	66
	<u>\$ 132,521</u>	<u>\$ 130,900</u>

corporate directory

EXECUTIVE MANAGEMENT

Hugh G. Ross, B.A.

President

Mr. Ross has extensive corporate and acquisition experience in the oil and gas industry, currently serving as President and C.E.O. of a highly successful oil and gas exploration and development company, Gentry Resources Ltd. He has been with Winslow Resources Inc. since its inception as Winslow Gold Corp., and was a major force in moving the Company to an oil and gas focus. Mr. Ross holds a Bachelor of Arts degree in Political Science from the University of Calgary.

John Nelson, B.Sc., M.Sc., P.Geol.

Manager, New Exploration Ventures

Mr. Nelson has over 18 years of oil industry experience in geology and geophysics. He served as an exploration geologist and project manager in numerous worldwide frontier areas for Mobile Oil Corp. before moving to Canada in 1993. Since that time, he has founded three private companies providing geophysical services and technology to Calgary-based companies. He holds B.Sc. and M.Sc. degrees in geology from Michigan State University and is a member of APEGGA, AAPG, CSPG and CSEG.

Hughes P. Salat, B.Sc., M.Sc.

Vice President, Exploration

Mr. Salat graduated from the distinguished ENSG School of Mines in Nancy, France and gained extensive experience with Elf Aquitaine for 20 years, working in Canada, Europe, Africa and South America. He moved to private consultancy thereafter, working with the United Nations and several government agencies in Canada. His experience encompasses both mining and oil and gas exploration as well as corporate affairs. He is a member of APEGGA, APEGBC, GAC Fellowship, CSPG and CIMM. He joined Winslow in 1994.

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Calgary, Alberta

Gerald N. Ross

President,
Ross Resources Inc.
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Hughes P. Salat

Vice President, Exploration
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